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IN THE NATIONAL INTEREST

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FEDERAL OFFSHORE LEASING

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America's need to find and develop secure supplies of domestic energy is acute. Temporary oversupplies of oil cannot hide these facts: The Nation's oil reserves are dwindling; it takes seven to ten years to explore and develop new oil fields; and these new fields, when found, are usually farther from major markets or processing centers.

To help meet growing demands, Congress passed legislation to expedite exploration and development of the Outer Continental Shelf (OCS).

The OCS consists of all offshore submerged lands under Federal jurisdiction, generally those areas seaward of a line three miles from shore for most States. About a billion offshore acres, an area equal to about 43 percent of the land mass of the 50 States, can be considered for leasing.

Robert Evans, Courtesy Exxon Company, USA

Congress did not envision that the entire OCS would ever be leased. Some of it shows little hydrocarbon potential. Much of it is remote, attracting little interest among oil companies. Some areas are not open to oil exploration because of possible conflicts with other uses—shipping, military activities, fishing or environmental preservation. In fact, only about 5 percent of the OCS has ever been leased and many of those leases have expired.

The OCS Lands Act, which Congress passed in 1953 and amended in 1978, requires that a leasing program "shall consist of a schedule of proposed lease sales . . . to best meet national energy needs for the five-year period following its approval or reapproval." The Department of the Interior administers the program. In designing an OCS leasing program, the Secretary must balance the potential for discovering oil and gas with the potential for environmental damage and coastal zone impacts. The program must also ensure that the government receives fair market value for the offshore lands leased and for any oil and gas produced. Affected States and local governments actively participate in planning and policy decisions.

Each OCS leasing program covers 5 years and consists of a schedule of lease sales. Sales are held by the Minerals Management Service (MMS), the Interior Department agency responsible for supervising all OCS activities. A lease sale is an offering of offshore blocks—a typical block is 9 square miles—within a specific planning area such as the Central Gulf of Mexico, the Gulf of Alaska, or offshore Southern California. The oil and gas industry bids competitively for the right to explore and develop these blocks under lease.

A lease term for a block is usually 5 years, but it may extend to eight or ten years if the water is exceptionally deep or where the operating conditions are harsh. A company may continue to hold a lease after the initial term as long as drilling or production is in progress.

Each scheduled sale in the leasing program is preceded by an approximate 2-year series of presale steps. This presale process can be ongoing at the same time for a number of sales. Among the presale steps leading to a sale are soliciting industry to determine its interest in the area to be offered, preparing environmental im-

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pact statements (EIS), holding public hearings, notifying Governors in a proposed notice of sale, reviewing all pertinent comments, and finally scheduling the sale. During this presale process, it is not unusual for the Secretary to eliminate many areas from leasing consideration because of environmental or other concerns. Blocks may be dropped because companies show no interest in bidding on them or because their development might threaten environmental values.

Bids received at the sale are reviewed by the MMS for adequacy, and by the Justice Department to assure against any antitrust violations. The bid review process is intensive and exhaustive. After leases are awarded, companies must also acquire a series of permits before actual drilling can start.

Preparing the OCS Leasing Program

Preparation of an OCS leasing program for 1987-91 began in mid-1984. The Interior Department asked for suggestions on which planning areas should be offered and when; the size of individual sales; and possible conflicts with defense, shipping, fishing and other economic or environmental interests.

The responses received helped the Department prepare a Draft Proposed Program, which the Secretary issued in March 1985. Again, comments were sought widely as the Department began the next step in the process, the preparation of the Proposed Program for review by the Congress, the Governors, the Attorney General, Federal agencies and other interested groups. Since approval of the leasing program is a major Federal action which could affect the environment, the Department is required to prepare an EIS considering alternative courses of action. The Secretary's decisions and approval of the Final Program are supported by data in the EIS.

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Considering the Options

The Secretary must decide where to set the boundaries of planning areas; whether to defer sales in sensitive areas; how often to hold sales in remote but promising areas such as the Beaufort Sea or Chukchi Sea off Alaska; whether to hold sales at all in frontier planning areas such as the Hope Basin or Shumagin, also off Alaska; whether to schedule supplemental sales each year for blocks not drawing bids in prior sales; whether to change minimum bid requirements currently set at $150 an acre; and whether to

revise the method or formula for deciding if a bid assures fair market value.

The Secretary must also decide how much acreage to offer in a single sale. Before April 1983, the Department used a tract selection process for identifying which blocks to offer in a sale. In the tract selection process, industry would nominate the most promising blocks. The Department would choose from among the blocks nominated, possibly adding others chosen by government scientists. The main feature of tract selection was that the acreage actually put in a sale was generally limited to only a few hundred blocks.

In the areawide process, first used in April 1983, an entire planning area consisting of thousands of blocks was offered for industry bids. Under areawide leasing, the general thrust was that industry could bid on any tracts it considered attractive. Although the percentage of tracts receiving bids was much smaller under the areawide process than under the tract selection system, the areawide process helped assure that almost all prospects were included in the acreage that went on the market.

Each process had its drawbacks. Critics of tract selection cited the severely limited acreage available for leasing, while opponents of the areawide process maintained that it did not provide sufficient environmental safeguards. The Secretary, in an effort to develop a program which includes the best features of each system, has implemented a method that focuses on promising acreage. This approach allows industry to bid on the high resource areas while helping to resolve environmental conflicts at an early stage.

The Secretary must also consider economic factors. For example, what might be the impact on oil prices if an international crisis were to halt oil shipments from the Mideast or another supply area? What if crude oil were to suddenly shoot above $60 a barrel as some economists were predicting during the mid-1970's or drop below $20 a barrel?

Or what if a major discovery were to occur in an area such as the Beaufort Sea and interest were to suddenly shift to developing that region? What might be the impact on the State's coastal economy—construction jobs, supply lines, roads, schools and other facilities?

The Secretary must assure that the Final Program is flexible enough to allow for minor mid-course adjustments. Otherwise major delays in leasing could have an impact on the Nation's economy and security.

After considering all the options, the Secretary sends a Proposed Final Program to the President and the Congress for a 60-day notification period. Once that notification is completed, the Secretary approves the leasing program and puts it into effect.

The Final Program for 1987-91

Following approval by the Secretary, the 1987-91 program will provide the framework for the Federal Government to conduct offshore leasing. It will guide industry in budgeting for exploration of the OCS, and assist States and local communities in planning for the protection and development of their coastal areas.

Sharing the Benefits

Over the last 30 years the OCS has yielded more than 7 billion barrels of oil and more than 70 trillion cubic feet of natural gas. Offshore production today accounts for about one-eighth of the domestically produced oil and one-quarter of the domestically produced natural gas. As a source of revenue, OCS leasing and production have accounted for some $80 billion in bonuses, royalties and rentals. Portions of these funds have been allocated through the Land and Water Conservation Fund to buy parklands and other recreation facilities in every State. Supplies and services for offshore drilling come from throughout the nation, thus boosting employment nationwide.

The Interior Department is committed to ensuring that each leasing program meets the goals set by Congress. In the process, Americans can expect benefits in the form of future energy supplies and national security.

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